

IV. FISCAL RELIEF FOR STATE AND LOCAL GOVERNMENTS**A. IMPROVED MARKETABILITY FOR TAX-EXEMPT BONDS****1. DE MINIMIS SAFE HARBOR EXCEPTION FOR TAX-EXEMPT INTEREST EXPENSE OF FINANCIAL INSTITUTIONS.**

Currently, corporations, other than banks, with outstanding debt can invest in tax-exempt bonds and deduct 100% of the interest costs of their own debt without proving they did not borrow to buy tax-exempt bonds, if their tax exempt holders do not exceed 5% of their total assets.

Both the Senate and House versions would provide all banks that invest in tax-exempt bonds issued in the during 2009 and 2010 to deduct 80% of their interest deduction to the extent their tax exempt holdings don't exceed 2% of their assets.

2. MODIFICATION OF SMALL ISSUER EXCEPTION TO TAX-EXEMPT INTEREST EXPENSE ALLOCATION RULES FOR FINANCIAL INSTITUTIONS.

Banks can currently deduct 80% of their costs of buying and carrying tax-exempt bonds sold by issuers who issue less than \$10 million of tax-exempt bonds in a calendar year.

Both the House and Senate versions would increase this amount to \$30 million for calendar years 2009 and 2010.

Underwriters today represent that the bank qualification is worth about 25 basis points.

3. TEMPORARY MODIFICATION OF ALTERNATIVE MINIMUM TAX LIMITATIONS ON TAX-EXEMPT BONDS.

Currently, the individual alternative minimum tax (AMT) applies to non-housing and non-501(c)3 "private activity bonds" and the corporate AMT applies to all tax exempt bonds except housing.

Both the Senate and House versions would repeal the individual and corporate AMT for all tax-exempt bonds issued in 2009 and 2010.

(2) expenditures for public infrastructure and construction of public facilities; and

(3) expenditures for job training and educational programs.

2. **RECOVERY ZONE FACILITY BONDS.**

The term "exempt facility bond" includes any Recovery Zone Facility Bond issued to finance depreciable property acquired after the effective date of the recovery zone, the original use of the property in the recovery zone commences with the taxpayer, and substantially all of the use of which is in the recovery zone in the active conduct of a qualified business by the taxpayer.

A "qualified business" does not include the rental to others of real property or a private or commercial golf course, country club, massage parlor, hot tub or suntan facility, racetrack, gambling or sale of alcohol for off-premises consumption.

3. **TRIBAL ECONOMIC DEVELOPMENT BONDS.**

Under current law, tribal governments can only issue tax-exempt bonds for projects that provide an essential governmental service.

Under both the Senate and House versions, tribal governments may issue \$2 billion of tax-exempt bonds for projects to spur economic development, except for facilities in which Class II or Class III gaming is conducted or housed or any other property actually used in the conduct of such gaming; or (ii) any facility located outside the Indian reservation.

The Secretary shall allocate the national tribal economic development bond limitation among the Indian tribal governments in such manner as the Secretary, in consultation with the Secretary of the Interior, determines appropriate.

The Treasury would be obligated to study whether this provision should be repealed.

4. **SMALL ISSUE INDUSTRIAL DEVELOPMENT REVENUE BONDS**

Under current law, small issue Industrial Development Revenue Bonds (IDBS) can only be issued to finance manufacturing facilities, which is defined as the manufacture or production of tangible property.

The Senate version would also allow small issue IDBS to finance facility creation or manufacture of intangible facilities or projects, including their

physical components, in 2009 and 2010. The House bill has no comparable provision.

E. **REPEAL OF WITHHOLDING TAX ON GOVERNMENT CONTRACTORS**

Under current law, state and local governments are required to, after December 31, 2010, to withhold 3% of payments made to contractors for property and service. The House version would repeal this requirement. The Senate version would delay its effective date until December 31, 2011.

F. **INCREASED ALLOCATIONS OF NEW CLEAN RENEWABLE ENERGY BONDS AND QUALIFIED ENERGY CONSERVATION BONDS**

Current law allow for the issuance of tax credit bonds by state and local governments and energy cooperatives to finance clean renewable energy projects (CREBS). Both the Senate and House versions provide for an additional \$1.6 billion of CREBS. The allocation would be allocated one-third each to state, local and tribal governments; public power providers and electricity cooperatives.

Under current law, qualified energy conservation bonds can be issued as tax credit bonds to finance initiatives to reduce greenhouse gas emissions. Both the Senate and House versions would authorize an additional \$2.4 billion of these bonds.

1. **APPLICATION OF CERTAIN LABOR STANDARDS TO PROJECTS FINANCED WITH CERTAIN TAX FAVORED BONDS.**

The payment of federal Davis-Bacon Wage Rates shall apply to projects financed with the proceeds of: any qualified clean renewable energy bond; any qualified energy conservation bond; any qualified zone academy bond; any qualified school construction bond; and any recovery zone economic development bond.